DRAFT REPORT ON BUMPERS AND IMPORT SENSITIVTY ANALYSIS FOR MOROCCAN TOMATOES

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PREPARED FOR USAID UNDER THE RAISE SANITARY AND PHYTOSANITARY SERVICES (SPS) CONTRACT WITH FINANCING FROM THE MIDDLE EAST PARTNERSHIP INITIATIVE (MEPI)

OCTOBER 2003

FRESH MARKET TOMATOES

Moroccan Tomato Production and Marketing Considerations

Moroccan tomato production has expanded since the restructuring of the industry following the dismantlement of the state monopoly on food exports in the late 1980's. Plastic tunnels dominate export market production. Field grown tomatoes are still exported to the EU but levels have dropped off dramatically as the EU narrowed the entry window, and as the market demanded fruit size and fruit quality that can only be produced in greenhouses or plastic tunnels. Plastic house production grew from about 323,000 Mt at the beginning of the 1990's to about 565,000 Mt in the 2001/2002 season. Exports have grown from about 152,114 Mt (47% of production) in 1991/1992 to about 205,000 Mt (36% of production) in 2001/2002. The 75% increase in production resulted in an export expansion of 35%. Morocco imposed minimum grade (diameter) restrictions on export tomatoes, allowing only the largest sizes to be exported from the mid-1990s. This move was a response to the EU imposition of a minimum entry price for a negotiated tonnage of Moroccan tomatoes that are entered during the fall and winter at reduced tariffs. The EU imposes a minimum entry price of Moroccan tomatoes that translates into a requirement for large diameter tomatoes of excellent quality if market prices are to be maintained above the minimum entry price. When the price of Moroccan tomato exports drops below the entry price, both a higher rate of duty and a penalty tax are applied until it is deemed that the market has cleared that lot of tomatoes. The US applies a similar seasonal tariff schedule to imported Mexican tomatoes, and Mexican producers have agreed to seasonal market entry prices under a rare "suspense agreement" meant to maintain minimum prices for Florida winter tomatoes.

Most Moroccan exports go to the EU. Within the EU a trend towards diversification of tomato marketing to Northern EU destinations reversed at the end of the 1990s. In 1991/92 France received 71.6 % of Moroccan tomato exports. In 2001/2002 France imported 78.7% of Moroccan tomatoes. In the 1980's nearly 90% of Moroccan tomatoes went to France. Outside of the EU, Morocco has sold increasing about of tomatoes into Switzerland and Eastern Europe, permitting overall diversification of its market from a 94% concentration in 1991/92 to a 79% concentration in 2001/2002. Morocco has a strong tomato production capacity but is unlikely to be able to significantly expand its production area. Tomato yields are currently limited by the semi-intensive plastic tunnel technology used for fall and winter season production. Statistics show a decline in yields from their peaks in 1997/98 and 1998/99 of 106 and 103 Mt per hectare, respectively.

Bumpers Analysis:

Moroccan greenhouse tomatoes make up a tiny component of US imports and a small component of Canadian tomato imports. Moroccan exports to Canada are not subject to high customs barriers nor are they subject to the phytosanitary restrictions relative to the Medfly that are imposed by the USA. Moroccan tomato exports to Canada have averaged less than 3,000 MT a year. These levels pose no threat to US exports to Canada, and they are unlikely to grow much

higher than 5,000 MT, because of the competition from Mexico and from Canadian greenhouse production on Canadian markets.

US fresh market tomato exports to the EU are non-existent. By definition there are no Bumpers issues in fresh tomatoes on the EU market.

Canadian Market Analysis

Table 1 shows the size of the Canadian market for all fresh tomatoes: round, cherry, Roma (pear shaped) fresh tomatoes for processing, and greenhouse tomatoes. Greenhouse tomatoes were not tracked separately in Canadian statistics until 2002 when a trade dispute over Canadian exports of greenhouse tomatoes required the segregation of these figures.

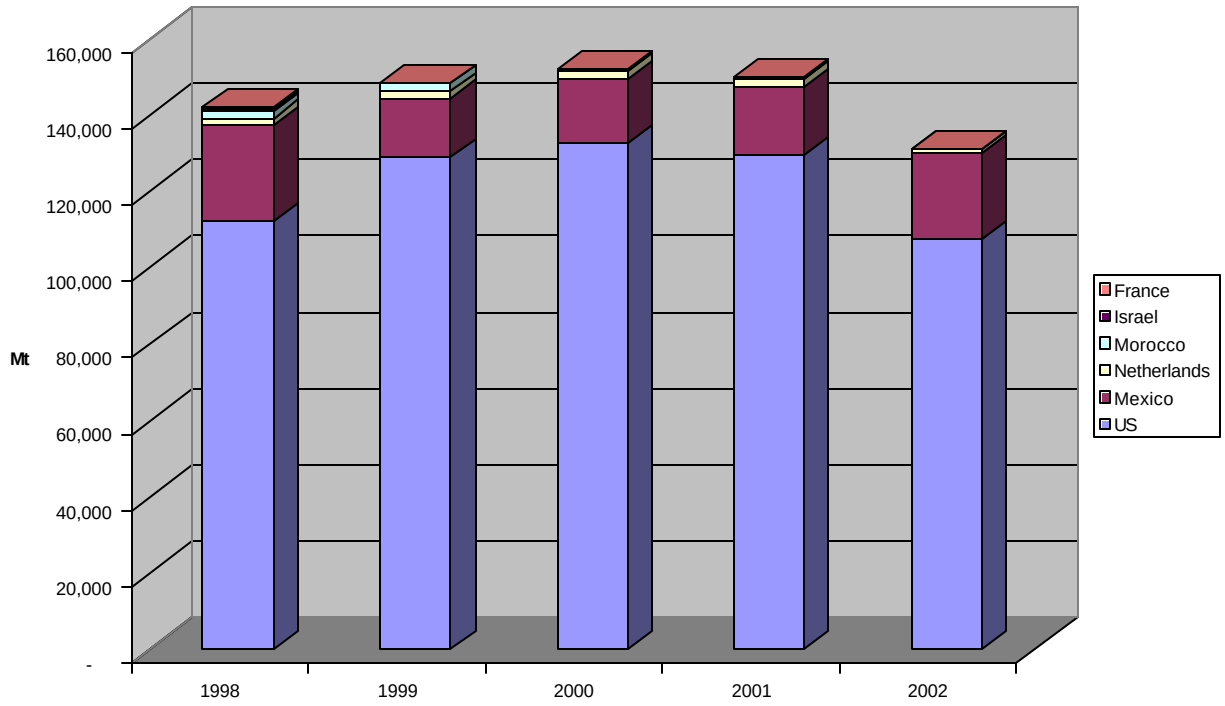
Table 1: Canadian Fresh Tomato Market Size, 1998-2002

Year	Tomato Production (MTs)	Total Imports (MTs)	Total Exports to US (MTs)	Total Market Size (MTs)
1998	659,500	156,404	70,724	745,180
1999	682,590	162,490	87,553	757,527
2000	701,330	172,706	104,303	769,733
2001	670,262	172,706	110,053	732,914
2002	690,000	176,620	107,485	759,135

Source: FAO Statistical Database and Statistics Canada.

Figure 1 shows that the US has by far the dominant position on the Canadian round tomato market compared to five other origins. This analysis focuses on the round tomato market (inclusive of greenhouse tomatoes) because round tomatoes of the Daniella and related long-shelf life varieties are the type exported by Morocco. Round tomatoes of all varieties make up the bulk of Canadian imports. The US consistently holds above 75 percent of the Canadian round tomato market place. The USA is also Canada's main export marketplace. The drop in round tomato imports is due to a shift in US and Mexican exports towards cherry tomatoes and the statistical separation of greenhouse tomatoes from the round tomato figures beginning in 2002.

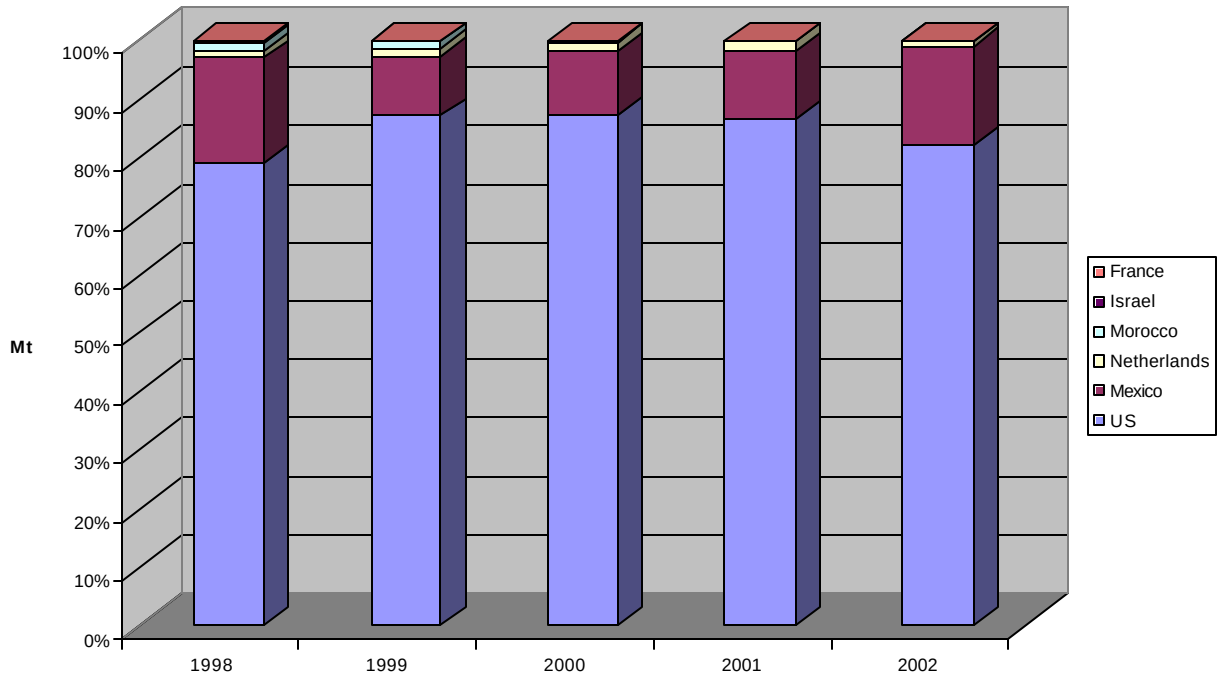
Figure 1. Canadian Round Tomato Imports



Source: Statistics Canada

Figure 2 shows the general trend in percentage shares for round tomatoes on the Canadian market place. It shows that suppliers outside of NAFTA are losing market share, and that the primary competition for Canadian import market share is between the US and Mexico. Note from Table 1 that Canadian imports of fresh market tomatoes have been increasing over the last five years.

Figure 2. Canadian Round Tomato Imports - Country Share

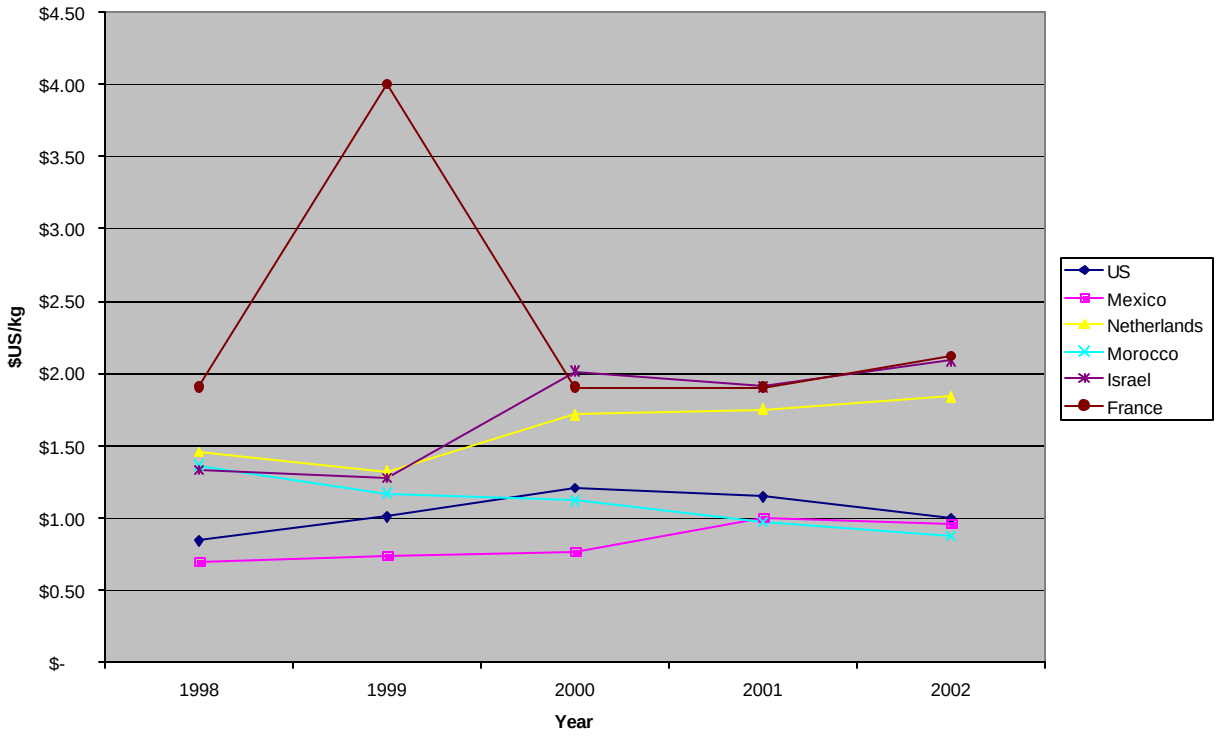


Source: Statistics Canada

Historically, the Netherlands has been able to maintain market share in Canada (and the USA) because of its extremely high production efficiency and a constant upgrading in product quality and market differentiation. In round tomatoes, this has meant moving to vine ripe tomatoes on the stem or cluster tomatoes to maintain price. Increasingly, it means supplying organic vine-ripened tomatoes. Increases in transport costs, the increased access of Mexican producers to Canadian markets, and costs associated with organic production started leading Dutch and Israeli companies to seek joint venture partners in the US and Mexico. As Dutch and Israeli technology has moved to the USA and Mexico, their capacity to maintain market share has declined. Shifting of hydroponic greenhouse production to lower cost sites in the New World over the 1990's also adds shelf life (the number of marketable days from picking) to the product and greater flexibility in dispatching and order fulfillment, reducing the former advantages held by Western European exporters on the higher end of the round tomato marketplace. Also, the tomato market has a large number of products on the market, permitting substitution of one tomato product for another (organic for conventional, pear for round, cluster for round). This means that at almost any time of year there is a continuum of tomato products and prices from which to choose.

Figure 3 provides the past five years of price data for round tomatoes on the Canadian marketplace. The high price for French tomatoes in 1999 is an abnormality in the data, representing a single small air shipment. Note that Dutch, Israeli, and French shippers are focusing on tomato shipments in 5.5 to 6 kg flats that are sold into the market at prices averaging around $2 a kg. Greenhouse tomatoes from the US and Canadian suppliers sell in the range of $1.30 to $1.50 a kg. Most of the round tomatoes shipped by Mexico and the US to Canada in 11 kg boxes sell for about $1 a kg. Moroccan tomatoes are shipped in 5.5 to 6 kg flats, but they are shipped in small volumes on vessels that carry citrus. Moroccan prices have declined as shipping times have increased and the quality of the arriving tomatoes has declined relative to the improved packs out of Western Europe that have short transit times to North America.

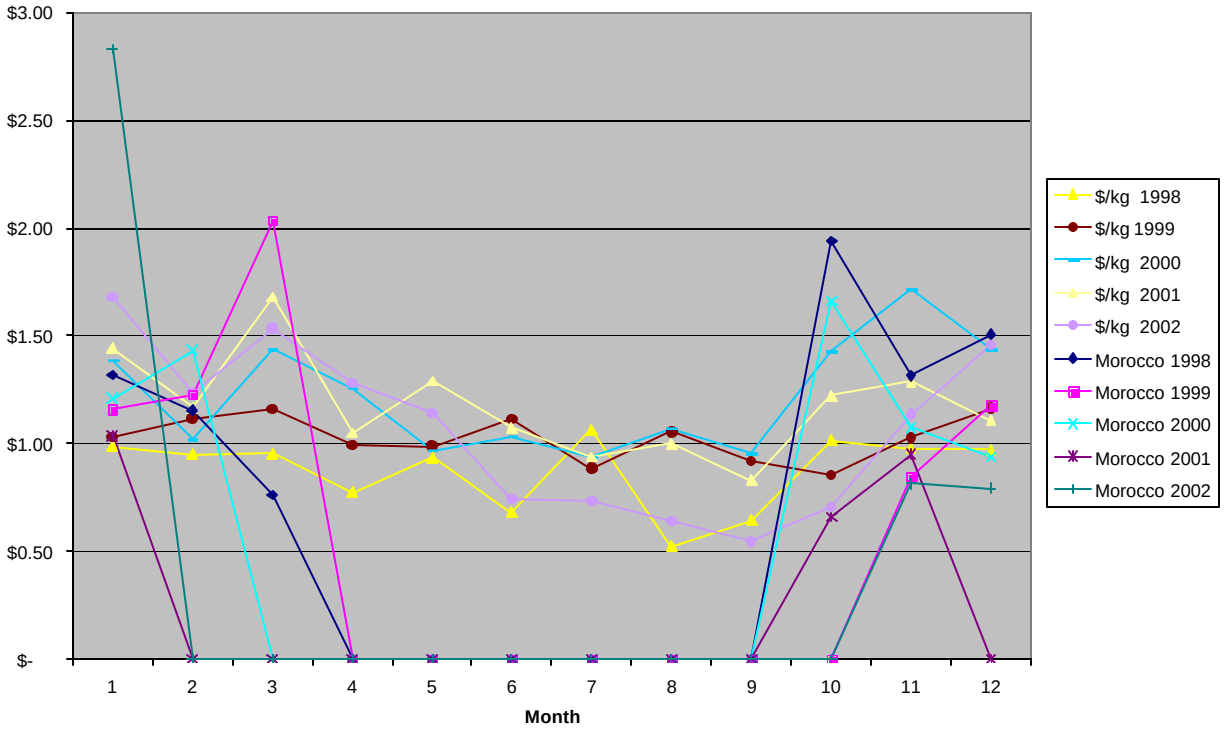
Figure 3. Canadian Round Tomato Import Prices



Source: Statistics Canada

Figure 4 provides a more detailed look at the monthly prices for tomatoes imported from the USA and Morocco over the past five years.

Figure 4. US & Morocco Prices $/kg
All Fresh Tomato Exports to Canada, Monthly 1998-2002



Source: Statistics Canada

Most of Canada's imports occur in the fall, winter, and spring, although both the USA and Mexico ship tomatoes to Canada on a year round basis. Moroccan exports to Canada over a much narrower window and these have dropped over the past five years. Using five year averages Moroccan exports are about 936 Mt a year out of total flows to Canada averaging 168,185 Mt a year. This represents less than one percent (0.56 percent) of Canadian imports. Morocco's peak exports to Canada were about 2,000 Mt. Even at twice these levels or 4,000 Mt, this would only represent 2.4 percent of Canada's imports. These levels are at the outer limits of Morocco's delivery capacity and will have negligible effects on US producers.

PD71 Analysis of Moroccan Exports to the US Market

Moroccan exports to the US market have never exceed 300 Mt in any calendar year, and have been less than 200 Mt in any production year. The following table illustrates the inconsequential nature of Moroccan tomato exports to the USA.

Table 2. US Tomato Market and Market Share

	Mt	Percent Share
US Tomato Market CY 2000	**2,354,600**	**100**
US Production	**1,636,072**	**70**
Mexican Exports	**615,000**	**26**
Canadian Exports	**79,554**	**3**
Other Country Exports	**23,974**	**1**
Of which, Moroccan Exports	**194**	**0.01**
Estimated maximum Moroccan Exports to the USA	**7,000**	**0.3**

Sources: USDA FAS, USDA ERS, USDA/APHIS

It should be noted that the 7,000 Mt figure is derived from work done in the mid-late 1990's when transportation costs were lower and a U.S. partner had made investments in Morocco to supply a specific market channel. Since that time transportation costs have increased, the U.S. partner has withdrawn from Morocco, and tomato market prices have softened.

The best available information from a source compelled to examine all sides of the effect of tomato imports on the welfare of US producers is the recent ITC decision on the effect of the sale of Canadian greenhouse tomatoes on greenhouse tomato producers. ((The full investigation can be found in United States International Trade Commission: Greenhouse Tomatoes From Canada-Investigation No. 731-TA-925 (Final) Determination and Views of the Commission (USITC Publication No.3499, April 2002. An addendum is provided at the end of this report that provides the key paragraphs in the analysis.)) The ITC Commission determined that the instances of sales at les than fair market value (LTFV) of Canadian greenhouse tomatoes had no negative effect on US greenhouse tomato producers. The total greenhouse tomato imports from Canada of about 30,000 MT also had no deleterious effects on the universe of US grower/packer/shippers of tomatoes or on employment in the industry. Canadian, and all other exporters, to the US market are dwarfed by Mexican tomato exports of between 450,000 to 600,000 Mt a year. Fresh market tomato prices are determined primarily by the open field production of tomatoes in Florida, California, and Mexico during the fall, winter, and spring months and in all US states during the summer season.

In the 1990's the U.S. Mission to Morocco assisted efforts to ensure that red tomato exports to the USA could be done in a way that satisfied the USDA/APHIS Probit 9 conditions for protection against the accidental introduction of viable Mediterranean fruit flies, their eggs, pupae, or larvae. Entry was granted to the Moroccan red tomato from two geographic zones (with low Medfly risk) in 1998. During this period it was shown that Morocco has a potential of providing only 1 to 1.5% of the total amount of the fresh market tomatoes imported by the USA

(representing 0.2 to 0.3 % of the total U.S. fresh tomato market). Moroccan red tomatoes would not compete directly against Florida fall season tomatoes (as do Mexican tomatoes which are mostly imported in a mature-green state) but against higher-priced on the vine tomatoes imported from Spain, Belgium, Holland and Israel. The maximum total amount of imports from Morocco was projected to be 7,200 Mt, and this amount would substitute for some other exporting origin's position, i.e., it would not be an additive amount to total US imports.

Historically, only one country outside of North America, Holland, has been able to maintain a steady position of about 12,000 Mt of vine-ripened hothouse tomatoes a year on the USA market. Israel has been able to maintain a smaller 5,000 to 8,000 Mt position by focusing on a small seasonal window for very high value cluster and cherry tomato sales. However, Israeli investors in Mexico and the South Western USA have eroded the traditional Israeli position in the past five years. Other contenders for market share have been able to enter for a few years, only to be supplanted by other producers.

The increases in transportation costs from Morocco to North America also make it unlikely that Morocco will be able to provide large quantities of tomatoes to either Canada or the USA. Adjusting for the increase in greenhouse production in Canada, the USA, and Mexico, it seems unlikely that Morocco will be able to exceed 5,000 Mt of tomato exports to the combined destinations of Canada and the USA.

Addendum: The ITC Decision on Canadian Greenhouse Tomatoes

In the final phase of antidumping duty investigations, the Commission determines whether an industry in the United States is materially injured by reason of the imports under investigation. In making this determination, the Commission must consider the volume of import, their effect on prices for the domestic like product, and their impact on domestic producers of the domestic like product, but only in the context of U.S. production operations. The statute defines "material injury" as "harm which is not inconsequential, immaterial, or unimportant." ….we consider all relevant economic factors that bear on the state of the industry in the United States. No single factor is dispositive, and all relevant factors are considered "within the context of the business cycle and conditions of competition that are distinctive to the affected industry. "

"The United States International Trade Commission determines, persuant to section 735(b) of the Tariff Act of 1930 (19 U.S.C. § 1763d(b)), that an industry in the United States is not materially injured or threatened with material injury, and the establishment of an industry in the United States is not materially retarded, by reason of imports from Canada of greenhouse tomatoes,…that have been found by the Department of Commerce to be sold in the United States at less than fair value (LTFV)."

The key reason given by the ITC: "We find that the differences between greenhouse and field tomatoes generally represent variations in the quality of tomato rather than distinctions that represent clear dividing lines. While greenhouse tomatoes typically occupy the higher end of a quality continuum, some field tomatoes are as high or higher in quality than greenhouse tomatoes, blurring any potential dividing lines. ….we find the domestic like product to be all fresh tomatoes, whether grown in greenhouses or in fields.

While we recognize the distinction between field and greenhouse tomatoes with respect to production facilities, processes and employees, the other five factors traditionally considered by the Commission suggest a continuum of fresh tomato products. Thus, we find, on balance, that the evidence on the record supports a finding that the domestic like product consists of all fresh tomatoes, whether grown in a greenhouse or a field.

We determine that there is a single domestic industry encompassing U.S. producers of all fresh tomatoes, whether grown in greenhouse or in fields, including packers of field tomatoes.

Relative to domestic production and consumption of fresh tomatoes, both the volume and the increase in volume of subject imports were small. In contrast, the domestic industry's a share of the U.S. fresh tomato market increased form 62.6 percent in 1998 to 68.8 percent in 2000, before declining to 66 percent in 2001. The market share of domestic greenhouse growers also increased from 32.2 percent in 1998 to 36.2 percent in 2001.

Subject imports oversold domestic greenhouse tomatoes in the majority (73 percent) of comparisons. The record does not indicate significant underselling by the subject imports. US shipments of domestic produces (field and greenhouse) range from $0.27 to $0.37 per pound.

Price effects: ….prices were driven largely by changes in the volume of fresh tomatoes, which were many times larger than the volume of subject imports. The relatively small volume of subject imports, in the context of the fresh tomato market as a whole, indicates further that subject imports did not cause price depression to a significant degree. The record does not demonstrate a cost-price squeeze indicating price suppression with regard to either greenhouse or field tomatoes. Overselling refutes the petitioner's assertion that respondents offer low prices in the spring to reestablish a presence in the U.S. market.

US capacity is almost fully utilized, greenhouse production has increased, and unit values per pound are recovered. ….

Employment

	1998	1999	2000	2001
Workers	1660	1790	2297	1935
Hours worked	2558	2806	3767	3585
Wages paid	$18.7 million	$21.3 million	$31.6 million	$31.5 million

We do not find that subject imports were responsible for the negative financial results of greenhouse growers."

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